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**HUD'S NATIONAL COMMUNITY
DEVELOPMENT INITIATIVE**

Y 4. B 22/1:103-140

HUD's National Community Development... **RING**

BEFORE THE

SUBCOMMITTEE ON
GENERAL OVERSIGHT, INVESTIGATIONS,
AND THE RESOLUTION OF
FAILED FINANCIAL INSTITUTIONS

OF THE

COMMITTEE ON BANKING, FINANCE AND
URBAN AFFAIRS
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

APRIL 19, 1994

Printed for the use of the Committee on Banking, Finance and Urban Affairs

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HUD'S NATIONAL COMMUNITY DEVELOPMENT INITIATIVE

TUESDAY, APRIL 19, 1994

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON GENERAL OVERSIGHT, INVESTIGATIONS, AND THE RESOLUTION OF FAILED FINANCIAL INSTITUTIONS, COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,

Washington, DC.

The subcommittee met, pursuant to notice, in room 2253, Rayburn House Office Building, at 10:05 a.m., the Hon. Floyd Flake [chairman of the subcommittee] presiding

Members present: Chairman Flake and Representative Roth.

Chairman FLAKE. We will now convene the meeting of the Subcommittee on General Oversight, Investigations, and the Resolution of Failed Financial Institutions. I am pleased to welcome the National Community Development Initiative, which is commonly referred to as NCDI.

As a community developer, Member of Congress, chairman of the Oversight Subcommittee, today's hearing is very important for all of us, especially to me, as it relates to HUD's commitment to community reinvestment.

As a community developer and legislator, I believe that this initiative could be the private-public partnering model for revitalization in distressed urban communities and rural communities throughout this Nation.

Clearly, the NCDI could be the appropriate method for the use of corporate, foundation, and Federal investments to achieve substantial and lasting economic growth. As HUD provides capacity-building for existing viable community development corporations, we in Congress are considering legislation to increase the capacity and facilitate the creation of community development financial institutions.

Such parallel activity may be key to achieving economic renewal of distressed and financially underserved communities. While I understand that this second round of NCDI is still in its initial planning phase, I believe the plan for oversight and review of the preimplementation policies and strategies is right.

To focus the hearing today, I would like all of the witnesses to present their statements and then to comment on the following policy questions. One, the nature of the Federal stake in the NCDI and what will be done to efficiently leverage government participation. Two, the strategies used to maximize capacity-building and bottom-up planning used and the determination of NCDI's community participants.

Three, the enterprise, foundation, and local initiative support corporations' role and responsibilities in private management of the NCDI and whether those roles are exclusive or will there be further grassroots initiatives in each of the communities.

Four, and finally, what other initiatives are being considered by HUD using its community viability funding portfolio to stimulate community development?

I appreciate your written remarks and, having read them, look forward to today's discussion as we search for solutions to the problem of this third world nation within our borders.

Before I introduce our witnesses, I would like to give the members of the subcommittee and our audience a brief summary of their backgrounds and the organizations they represent. We will begin our testimony with a designee for Secretary Henry Cisneros, Ms. Maureen Warren, Deputy Director of HUD Special Actions Office.

The Special Actions Office of HUD is an entrepreneurial office which acts as a catalyst for nontraditional public-private partnerships to address the needs of underserved populations and target cities designated by the Secretary. While this office fosters collaboration with public, nonprofit, and Federal sectors, its purpose is to identify existing successful and innovative partnerships to seek opportunities for replication, combining those opportunities with the ability to test new policy directions for HUD across all program areas.

This is a tribute to the unique vision and leadership of Mr. Cisneros, whose broad mandate in creating the Special Actions Office, clearly underscores HUD's commitment to seek new avenues in affordable housing and urban development.

Following Ms. Warren will be Mr. Bart Harvey, chairman of the Enterprise Foundation; and Mr. Jim Grogan, president of Local Initiative Support Coalition. These two nonprofit organizations have been at the forefront of community development by working with local organizations to enlarge their capacity, to develop opportunities in housing, and economic development in America's neighborhoods.

Ladies and gentlemen, I am very pleased that you have come to share with us this morning and testify before this subcommittee. As I often tell people in my district, I am, first of all, a father, a husband; second, a pastor; third, a community developer; and, somewhere down the list between 3 and 10, I am a Congressman and politician.

So there is no topic that is more important to me than the topic that we discuss. I am happy that you could be a part of this hearing and we look forward now to hearing your testimony, starting with you, Ms. Warren. Welcome to the subcommittee.

STATEMENT OF MAUREEN WARREN, DEPUTY DIRECTOR, SPECIAL ACTIONS OFFICE, OFFICE OF THE SECRETARY, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Ms. WARREN. Thank you. I'm happy to be here, Mr. Chairman. I am Maureen Warren and I serve in what is now an 8-month-old office called Special Actions. I'm happy to speak about NCDI be-

cause I view it as indicative of the very task we were assigned when Secretary Cisneros created our office.

This one was easy. This one was our office coming in and responding to an initiative from other organizations. One of the basic themes of HUD and certainly one that is emphasized by both the Secretary and by Assistant Secretary Cuomo in community planning and development is a recognition that the best community development activities and ideas don't necessarily exist here at HUD, that the communities are best rebuilt neighborhood-by-neighborhood, with comprehensive solutions that are shaped from the bottom up.

One of the keys to making this approach work is building the local capacity and local ability to do housing and economic development in local communities. The NCDI initiative is one important capacity-building tool to make that happen.

This partnership approach represents an exciting, innovative, and effective approach to urban redevelopment by joining together all sectors, private, nonprofit, and public, to invest in central city neighborhoods.

As Secretary Cisneros stated on March 21 when he had formally announced our participation in the NCDI, this initiative involves an unprecedented melding of public and private resources in an historic partnership that will empower communities to rebuild themselves.

The NCDI alliance represents an effort to improve the fabric of community life by providing low-interest loans and grants to local community development corporations, known as CDCs, or local housing development organizations, known as CHDOs.

CDCs and CHDOs borrow money, invest it in the physical and social infrastructure of their neighborhoods, repay their debts and rebuild again. These nonprofit groups manage and build affordable housing, create day care and other neighborhood facilities, undertake job creation, economic development efforts, and serve as leaders for consensus-building in their communities.

Often the process they use is just as important as the product they are engaged in, the development and building of future community leaders. The second round of NCDI or NCDI-2, as we call it, will consist of a fund of \$87.65 million. Of that, \$20 million represents the HUD investment authorized last year.

We expect that these funds will generate an additional \$660 million from other sources to help accelerate central city neighborhood renewal in the 23 cities currently participating in the program.

As you know, Mr. Chairman, HUD's participation was authorized by section 4 of the HUD Demonstration Act of 1993 and then the fiscal year 1994 Appropriations Act provided \$200 million for HUD's share—I'm sorry—I wish—\$20 million for HUD's share in the partnership. HUD's 10 foundation and corporate partners in this venture are: First, the corporate partner, the Prudential Corp.; then the Rockefeller Foundation, J.P. Morgan & Co., The John D. and Catherine T. MacArthur Foundation, Metropolitan Life Foundation, John S. and James L. Knight Foundation, the Pew Charitable Trusts, the Surdna Foundation, the Casey Foundation, and the McKnight Foundation.

NCDI will invest in community renewal efforts in 23 cities. The partnership is managed by the two organizations represented with me today, LISC and Enterprise Foundation. These organizations are leading national nonprofit lending and grantmaking institutions which offer a range of financial and technical assistance to CDCs and to other neighborhood-based organizations.

The 23 cities that are expected to be involved in the NCDI-2 are Atlanta, Baltimore, Boston, Chicago, Cleveland, Columbus, Dallas, Denver, Detroit, Indianapolis, Kansas City, Los Angeles, Miami, New York, Newark, the Oakland and San Francisco area, Philadelphia, Phoenix, Portland, San Antonio, Seattle, St. Paul, and Washington, DC.

HUD's involvement as a partner in the NCDI-2 round of funding is based on the success we observed in the first round of NCDI and the achievement they made in inner-city renovation. The first effort, announced in 1991, committed approximately \$63 million in private foundation and corporate funds to CDCs in 20 cities. These funds to date have leveraged approximately \$350 million in support for community revitalization.

With these funds, over 150 CDCs have been able to expand their work and strengthen their organizations. More than 5,000 low-income housing units, day care facilities, and other community facilities, which serve over 1,000 children, and neighborhood shopping areas have been completed in the course of the development to date.

Some of the successes that we observed when we first looked at the NCDI Program that have been accomplished through round 1 are best shown by discussing specific examples. In your home city of New York City, for example, Mr. Chairman, NCDI funds matched by local private funds have helped create the Child Care Facilities Development Program. This partnership will result in the development of 10 day care sites and Headstart Programs for 880 low-income children throughout the city.

In the city of Philadelphia, NCDI funds have helped develop some 510 low-income sales and rental units in neighborhoods with nearby shopping facilities. In San Antonio, NCDI has worked in partnership with the San Antonio Housing Trust Foundation and has instigated the development of a community-based nonprofit housing development system. Operating through 6 CDCs, they are now at 140 housing units, affordable housing units under construction.

In Chicago, some 750 units of rental housing are under development through a revolving predevelopment loan program being administered by 6 CDCs using NCDI funds.

Finally, in Portland, Oregon, 8 CDCs are working together, supported by NCDI loans and grants, for planning and developing 250 affordable homes for low-income families. Most of these are single-family homes. In addition, more than 15 CDCs have received training from NCDI funding.

In addition to providing the loans and grants to the CDCs in the now 23 cities, NCDI funds are being used to create the availability of affordable financing for CDC-sponsored housing in other community projects.

Mr. Chairman, the NCDI effort to strengthen community development corporations is closely related to the President's and the administration's Community Development Financial Institution Initiative. Many of the CDCs that will use the financing made available by the proposed community development banks will use them to increase their development capacity.

Through the efforts of the NCDI and others, many CDCs are now strong or going strong enough financially to possess the needed talent and have the strong neighborhood ties that will be necessary to spearhead the development that will make community development banks a success.

NCDI will continue its work with other CDCs to increase their competence level and make them competent and users of neighborhood development banks.

In summary, I believe that the NCDI effort has vastly strengthened the capacity of CDCs to help bring about the physical, economic, and social revitalization of distressed neighborhoods. The Department is excited about this innovative partnership with the private sector and with neighborhood-based nonprofits and plan to make CDCs an even more creative force in meeting community needs in the areas of affordable housing, jobs, crime prevention, health care, and child care.

Thank you for your attention. I am happy to be here and willing to answer any questions you may have.

[The prepared statement of Maureen Warren can be found in the appendix.]

Chairman FLAKE. Thank you very much, Ms. Warren. At this time, we'd like to recognize Mr. F. Barton Harvey, III, chairman of the Enterprise Foundation. You may proceed.

Mr. HARVEY. Thank you, Mr. Chairman.

Chairman FLAKE. When I said the III, your staff laughed back there. They didn't know you had a III.

Mr. HARVEY. They probably laughed because there is now a IV as of 2 months ago. And I must say my priorities are resembling the priorities that you listed and it brings home even more to me the importance of what we're doing. At the grassroots, I hope every child gets the same opportunity that I hope my child gets.

Chairman FLAKE. Congratulations.

STATEMENT OF F. BARTON HARVEY III, CHAIRMAN OF THE ENTERPRISE FOUNDATION

Mr. HARVEY. Thank you. You have my written statement. So I'm going to get at those questions that you asked and I will just excerpt from the statement. First of all, just a small bit, and I promise it will be small, about the Enterprise Foundation. We're very proud of Enterprise. It was founded in 1981 by Jim and Patty Rouse, who I know you know, Congressman. Since that point, it has grown dramatically. Its purpose was to work with very low-income families across the country to give them the opportunity for decent, affordable housing, and a way up and out of poverty.

The Enterprise Foundation works now in 150 cities across the country. We work with 388 nonprofit groups in those different communities. Over the last 10 years, we've provided over \$1 billion of support through grants, loans, and primarily equity using the tax

credits directly into nonprofit projects across the country. That has helped provide over 36,000 units of housing, all for very low-income families and individuals.

I mentioned that Enterprise works at housing because we believe housing is the essential platform for getting at most of the destructive effects of poverty. Decent and affordable housing is a first step. It's an essential beginning to transforming the disgraceful, deteriorated, and violent conditions that we find in so many of our inner cities. It also gives families their own dignity, self-respect, and the ability to improve their circumstances.

Housing is not a solution to poverty itself, but it's a starting place. And that's why the Enterprise Foundation started there.

You've heard the structure from Maureen of the NCDI Program itself. There are two phases and HUD participated in the second phase of it. We think it was a tremendous move forward for the foundations and particularly one major corporation, Prudential, to pool their resources and really try to get to scale in a selected number of cities, really as a demonstration of what could be possible.

HUD's joining this group of funders is a tremendous move forward. What is most important about HUD's participation is that it is flexible, that they are acting as one of the members, they are minimizing the restrictions that typically are put upon any program that is congressionally mandated or HUD-mandated.

In essence, they have chosen LISC and Enterprise to administer to the best of our ability a program that involves subjectivity, that involves working with groups in the best way we possibly can, and HUD is bringing oversight to that. They're bringing considerable resources. They, in fact, leveraged other private resources and other foundations to improve the pot of money that is available, and they're not afraid to take that role.

There are certain other restrictions that are imposed. There certainly are audits. There is the OMB A-133 circular that all of our groups are going to have to comply with, so that you know exactly where HUD's money has gone and how it has been spent. Both LISC and Enterprise will be working hard with the nonprofit groups to make sure that they have the ability to meet those requirements.

But we're very pleased with the way they have participated, with the spirit of their participation and their help in trying to cut down as many of the regulations that might hurt this program as possible.

What do we expect to achieve from this National Community Development Initiative? We think at the end of these funding cycles, that we will begin to have measurable and lasting institutional change that will occur in these cities; that the nonprofit sector will be getting to scale in these cities; and, that we will have been able to have a sustained funding environment where nonprofit groups know that there will be support over a number of years and can, in fact, hire staff and increase their productive capability to take on the problems of their neighborhood over a sustained number of years. I can't stress that enough.

The assurance of knowing that there is going to be an ongoing supply of funds and that everything that nonprofits are trying to

do is long term and, thank goodness, for once, the funding is long-term for them at the same time.

I'll give you just a couple of samples of how different the program is from city to city. New York City has already been mentioned. LISC and Enterprise have had a very successful program in New York City that's been doing the production side. Using the low-income housing tax credit and city funds, LISC and Enterprise together have rehabilitated over 4,000 units of housing, with 52 non-profit groups. It's been a tremendously successful program.

But what we used the NCDI funds for was something that the nonprofit groups, the grassroots people, called out for, which was for child care centers, so that mothers could go to work, so that there would be provision for their children. Therefore, we were able to flexibly use NCDI's funds, the grant funds and also the loan funds, and we're in the process of setting up 4 day care centers that will serve over 1,000 children. That is folded right into the housing that we are producing in New York City.

In Baltimore, Enterprise used its NCDI funds as part of something we call neighborhood transformation in the Sandtown-Winchester area of Baltimore. This is an area of 11,000 people. It's one of our most distressed neighborhoods in Baltimore. We are going at not only the housing, which these funds are for, but also every other dysfunctional system in Sandtown. That means the schools, the public health system, job training and job readiness, prenatal and postnatal care, right on down the list, and we're doing it all at the same time because each system reinforces the other. Having NCDI funds was critically important.

You mentioned how grassroots is the effort involved in various cities. I'd say it's very grassroots. LISC and Enterprise are intermediaries. We are only trying to make the best judgments from our experience over time. But we rely on the grassroots groups and we go around and we look at performance over time and we ask them what their programs are, what their needs are, and then we try to come back and help them in whatever way we can, with either technical assistance, capacity-building, longer term funds, or even helping in the financing system that may not work.

Our program relies wholly on communities buying in and taking control of their own problems and we are a helper and an assister. As we go around the country, every city (I've got lists of them and I don't want to go over my time) every city is different and every need is different.

Chairman FLAKE. Hold your point just a minute. What is the application process for a community group? Do you put out an RFP or some—how does a group know that you are in the business of providing that support system? Do they apply to you? Do they apply to HUD?

Mr. HARVEY. They don't apply through an RFP, no, and I think this is a very important thing. Anytime you get into an RFP, it's a very difficult—it gets to be a very political system and you've set down criteria. In some cases, you're overruling your own judgment on what is best.

The way that LISC and Enterprise have worked is—and a lot of these cities is where we've been working for a long time—is we go into a city and we will take on any group that we think is effec-

tively serving the mission. In our case, it's low-income people and developing a community. And everybody qualifies, basically.

There will be some people that, for one reason or another, have not performed or haven't been able to perform or have been solely politically inclined and if it's our judgment that they really will not do the work or have not been able to do the work, they may not be chosen, at least for this round, until there is corrective action taken. That is a subjective judgment.

I think both of us will get criticized from time to time for that subjective judgment but, by and large, in cities, I think you will find that almost all of the productive groups and a number of the new and aspiring groups coming up, we will be working with.

Chairman FLAKE. Do they come to you? They find you.

Mr. HARVEY. Yes. They sure do.

Chairman FLAKE. They know you're there.

Mr. HARVEY. Absolutely. In fact, sometimes it's just hard. We get more requests than we can responsibly fund ourselves. Sometimes that is the limitation, merely saying we can't—we could give everybody a little bit of money and no one could get done, or we can work with some groups and as we grow the funds available, add other groups. So those are key points.

I was going to mention Portland, Oregon, Cleveland, Ohio; again, every case is different. Every program is different. The housing needs vary dramatically across the country. The programs that have grown up from the grassroots are different ones to address. But in every case, we're trying to build long-term capacity. We're trying to make sure that that resides in the community and we're trying to build other institutional help to those nonprofits in the financing system.

We're trying to connect the business community, the nonprofit groups, as well as the public sector, all to work together.

You asked one other question on the community viability fund. Let me end by saying we think it's absolutely essential that HUD have the ability to—that they have a certain amount of discretionary funds that allows them to do things like NCDI. Even if it's not with Enterprise and LISC, if it's with others, it's tremendously important that they be able to harness outside foundation support, outside corporation support.

A lot of the people that have been working in this field for a long time, whether it's in organizing or all the way through, are the people that are most knowledgeable in this field, and I would end with that. Thank you very much.

[The prepared statement of F. Barton Harvey III can be found in the appendix.]

Chairman FLAKE. Thank you very much, Mr. Harvey. Mr. Grogan from LISC Foundation. We're happy to have you with us. You may proceed.

STATEMENT OF PAUL S. GROGAN, PRESIDENT, LOCAL INITIATIVES SUPPORT CORP.

Mr. GROGAN. Thank you, Mr. Chairman. Like my colleague, Mr. Harvey, I wish to be permitted a brief commercial for my organization before getting into the substance of the presentation. I will try to make some points perhaps that Bart hasn't made, which will be

difficult, rather than going through my written testimony, which you have.

LISC was founded in 1979 by the Ford Foundation and six other major corporations and foundations around the country. It was really the first major initiative of the then new President of the Ford Foundation, Franklin Thomas, who, as you know, cut his teeth in community development, running one of the first, if not the first community development corporations in America, the Bedford Stuyvesant Restoration Corp., which began in the late 1960's in Brooklyn.

The Ford Foundation has been deeply committed for decades to the notion that people in low-income communities are the best qualified and the most able to lead the process of revitalization and bringing opportunity into those communities, but that that leadership needs to be bolstered by enormous amounts of technical, organizational, and financial help.

LISC was designed to be a national intermediary that would be utterly devoted to supporting what we call community development corporations, the grassroots organizations that are founded, controlled, and directed by residents of low-income communities to bring about broad-based revitalization.

The notion was, in addition to the power and possibility of ordinary citizens, that if you had a reputable, well-run intermediary organization, that the private sector could be induced to participate heavily in this process of neighborhood revitalization. But absent such an intermediary structure, it would be very difficult for most corporations and, indeed, many foundations to make their resources available in an effective way.

So for the last 15 years, that is what we have been doing, providing, through our staff, large amounts of technical and organization help and financial resources in the form of grants, very low-interest loans, and, like the Enterprise Foundation, equity investments made possible by the low-income housing tax credit.

We think of ourselves as a cross between an operating foundation and an investment bank for neighborhoods. On the philanthropic side, we are deeply committed to the strength and durability and accountability of the underlying grassroots organizations that are performing all of these remarkable tasks.

On the investment side, we're committed to inventing ways to bring more and more private and market capital into these communities and to break down the isolation that afflicts so many of these neighborhoods.

NCDI-1, which was put together 3 years ago, has been described to you. I think it was animated by a view on the part of the funders that the community development phenomenon is the most promising and hopeful thing going on in some of our bleaker urban landscapes. It's still not terribly well known, not well understood. Perhaps it has had the benefit of not being subjected to excessive expectations too early.

But quietly, without much fanfare, what has spread across the land is not only now thousands of these organizations which have sprung from churches and block clubs and just people meeting together on the street, but also a spreading infrastructure of systematic support, which is, by and large, very local in nature; banks,

other corporations, local foundations, and State and local government increasingly not just supporting these organizations, but trying to understand how they can be systematic in their support and creating local environments in which these organizations can flourish for the long term.

But national funders who wish to support these endeavors face this problem of the extreme localization, which is the strength of this movement. So they've sought the assistance of LISC and Enterprise as distribution systems, in effect, as ways to put out money, have it reach these local communities, and have it be managed in an accountable way.

So I think that in terms of your question about the intermediaries, this is a very important dimension of this program and the way that we think that the intermediary structure is adding value by, in effect, making it possible for national sources of money, whether it is grant funds or equity or debt, to flow into communities and flow into those communities in a way that is not prescriptive or rigid, but, rather, that teases out and incentivizes the local funders and supporters of community development to do even more.

It is just tremendously exciting to look at how these local environments have changed. I got into this business working in city government originally in the 1970's. I think it was an era, Mr. Chairman, when most big city mayors were, if not actively hostile to strong independent neighborhood organizations, they were deeply skeptical. There was not this environment of support from the public sector.

That has changed hugely in the last 10 years particularly and most of the admired mayors in this country are embracing community development corporations for how effective they are at solving local problems and for the private sector support that they have attracted, which gives them further legitimacy.

In terms of the HUD participation, I believe it represents an effort by HUD not only to further support and participate in this remarkable phenomenon, but to learn how to support things in a flexible way, how to do the thing that the private funders are trying to do, which is how do we make our money available in a way that adds value, recognizes the flexibility and the fact that many other sources of funding must be knit together at the local level.

It's a high-risk experiment. I will tell you that the private sector funders at first—they were intrigued at the notion of HUD participation, but also rather worried about it. J.P. Morgan does not routinely seek HUD as a partner in its financial endeavors.

Nevertheless, I think it's very positive of, and we're just at the starting line, but finishing a legislative and a bureaucratic process that brought us to this point, that the private funders are now at a point of genuine enthusiasm about the possibilities. And, of course, the quality of the team that the administration has under Secretary Cisneros there has been very reassuring to them.

I want to emphasize that the other programs and initiatives that have come from this subcommittee and from this Congress are absolutely crucial in building this local environment that I've been talking about. The Community Development Block Grant was per-

haps the first in terms of setting a standard for how Federal funds could be made flexibly available, use to be determined locally.

In the early years of this movement, the block grant was absolutely critical. But now we have the low-income housing tax credit, again, distributed on a State basis and a very localized way; again, a flexible resource that can be fitted into a wide range of projects. There is the Home Program and, of course, the Community Reinvestment Act for financial institutions, and now a new set of initiatives, CDFI, which you mentioned, and CDI itself.

All, I think, are connected by this theme of using the Federal system, empowering local players to make a determination locally, to decide priorities locally, and, very importantly, to hold each other accountable.

There is a wonderful accountability that occurs when you have a whole range of local institutions that are at the table actively participating, want to see something happen, but also don't want to be embarrassed. That has raised the standard of performance of community development corporations. It has given the local public sector better options to invest in organizations that will actually perform as opposed to being merely politically attractive or popular.

Again, this is a process that I don't think has been well understood to date, but it represents a very bright hope for this country.

So we're deeply grateful to you and to the subcommittee and to the Congress and the administration for giving us this opportunity to participate in what I will emphasize is a high-risk experiment. But you have, in effect, a structure continuing to develop out there that has already undergone a fairly stern field test and, as I've said, is being held accountable by a range of local institutions that really care what happens.

That is the best insurance, I believe, that you and the administration can have that the HUD resources, in turn, will be used well and wisely. Thank you.

[The prepared statement of Paul S. Grogan can be found in the appendix.]

Chairman FLAKE. Thank you very much and thank all of you. Let's start with the question of risk and perhaps a little more definition of that. We understand that the traditional practices of HUD, either through direct funding or through some request for proposal process, making a determination of who can and who cannot, who will and who will not actually do a function within a community.

Are you suggesting that by taking \$20 million, putting it through, rather than a municipal sifter, which is much more political, rather, putting it through a privatized sifter, which is less, and an enterprise, that the risks are greater? Is that what I'm hearing intimated? Or would we suggest that the risks are less? Is there a greater possibility of getting an end product through this mechanism than there is in many instances through the traditional State and/or city or other municipal processes?

Ms. WARREN. Mr. Chairman, I would say that our observation of NCDI, one, as it is operated, is that I wouldn't characterize the risks on a greater/lesser scale. I'd say it's a different set of factors

that operate to propel performance. As Mr. Grogan commented, it's much more locally owned, local enforced.

It's less pages of regulation and more in-your-neighborhood future performance, ability to return to a particular lender, ability to have a future relationship with someone, rather than a paragraph in a subdivision in a HUD manual.

It's really a balancing act that we at HUD had to look at as we tried to structure the regulations. The use of the intermediaries gave us a way to have a somewhat tested privatized method to help us take some comfort in that risk. Both LISC and Enterprise have been in this business for several years. They have other grants through HUD and have a very strong track record of audit performance, of reporting to us.

So we saw their presence as a comfort level factor for us at HUD, knowing that they had the sophistication and the knowledge and the auditing requirements that would help us.

But, you're right, it's a different type of risk. You're reporting to a different master, if you will. I think Mr. Grogan's comments are right on point, that there are local forces that really make production and performance quite likely.

Mr. HARVEY. Let me also add that there's another feature to what HUD did and the way that its money was put out. It challenged the private sector to come on a 3 to 1 basis, basically. In essence, HUD said we're going to put our money where some of the best foundations in this business that have been operating for many, many years are putting their money, but we're also challenging the private sector to come up and to make a bigger pot, to make more happen.

In doing that, it also allowed, which is interesting, less risk in some sense. It allowed corporations to come into this and to lend money which LISC and Enterprise are responsible for. Now, the risk to LISC and Enterprise of that loan money—and I think what Paul Grogan was saying—is that this is a high-risk venture in that LISC and Enterprise are lending out money for predevelopment use, which is high-risk money that goes in.

But it's coupled also with grants that allow the groups to build their capacity so that they can carry out those projects, so that ultimately the predevelopment loans can get funded out in the end.

Another point that Paul Grogan very well made was that these corporations would never have found a way to lend their money to individual nonprofit groups. They just couldn't have done it. They couldn't have done it in this size. That's the same thing that the larger foundations said. They didn't want to make all the choices of where their money would go, but they wanted to make sure that it would go in a way that was responsible and accountable to the end product.

The final point that I would make that I think, also, as Paul Grogan alluded to, is that hopefully, Enterprise and LISC are objective enough from our experience that we don't bend to the same political pressures that may be present in a city. Some of the groups that we are funding are at odds, quite frankly, from time to time, with the cities involved. In essence, they are asking the cities to up the ante as to what they put back into the communities.

So that we are an independent source that really augments what's already going through the States and the cities. You've got to remember our size compared to the size of all the block grants and the HOME funds and everything else, that are already going out into the cities.

So that there is some balance from the private side as to what's going on. So, you're right, there are different kinds of risk, there are different levels of risk, and there are different things that were achieved through this unique partnership.

Chairman FLAKE. I see some pluses. You were about to comment.

Mr. GROGAN. Bart really made the point about the relative size. We're not an alternative government and do not intend to go in that direction. It would not be appropriate to route billions of dollars of public funds through these initiatives. But it goes to what you are trying to accomplish.

One of the things that the national funders are trying to accomplish, in addition to using their own money well, is to use their money in a way that teases out further local commitments. I think money through LISC and Enterprise is better designed to do that, tease out the private sector commitments, than the same money would be routed to the public sector.

That is what we do, in effect, is leverage private sector participation and continue to enrich this local environment that we're trying to build. So a relatively small amount of money, as Bart says, vis-a-vis the block grant or HOME can be very effective in teasing out those private sector commitments. But we're not proposing that we be alternative governments and seen as an either/or proposition to funding government. That, in my view, would not be appropriate.

Chairman FLAKE. But even not making it either/or, there may well be some advantages in terms of at least finding ways to leverage the limited amount of dollars that are and will be available in the future as it relates to government.

In essence, what HUD has done here has said we will create the downpayment and you go out and bring in partners so that we can get enough to make a difference in communities that have been ignored, which I kind of like. It's a constant argument that I make. So they, basically, become a guarantor, as any person would in putting their 20 percent up to buy their home or whatever percentage to buy a car or whatever property.

I think that makes some sense. And I'm not sure that, sitting from where I sit, that even programs like CDBG at their initial stages may not have been better put into a process that leveraged more and did not go through the political sifters. I think we could have gotten more money in more places than many of the downtowns that we know were developed because CDBG money was available.

What do we do with the model? That's the real question. If it works, where do we go in the future? We have the same interests, the same obvious concerns. Yet, we've seen model cities and other programs come and go. What does this mean for us in the future of community development in this third world nation within these borders of ours?

Ms. WARREN. I think, Mr. Chairman, the first thing we try to do from the model is learn from it. I'll also respond to one of your

opening questions where you asked what other community, viability community initiatives is HUD looking at. At the same time that we're working with NCDI-2 and have made the \$20 million investment in this program, we're asking ourselves at HUD the question how to structure our budget to provide other means of support to community development corporations.

I smiled when I heard Mr. Grogan call it a phenomenon. I was in a debate recently where we wondered if it was an industry, if it was a movement. I kind of like phenomenon. But in looking at that and really a recognition that these groups are making contributions and that HUD is not presently structured to really be user-friendly or responsive to these types of organizations, because we grew up in the traditional model that you're describing of serving local governments.

Tomorrow at 10 a.m., our Secretary is announcing our HUD Act of 1994. In that, you will see a proposal for something that we're calling the Community Viability Fund. We're doing our thinking on how to structure some HUD dollars that would be available to community development corporations outside of this model, what type of HUD-generated, HUD-directed type of assistance could we provide to community development corporations.

We're trying to learn from this model about the leveraging tasks. It is quite different. It is going back to saying HUD is HUD and we're going to try to do this thing, after successfully having found this model.

So it's a further recognition of the value we place on that structure. I'm hoping that the leveraging lessons that we've learned can be applied to our community viability.

Chairman FLAKE. I'm going to recognize Mr. Roth, but I want you to think about a question that I will come back to. That is your anticipated response in terms of the political community that traditionally would see \$20 million as an opportunity to meet needs, not necessarily the kind of needs you've identified. But there is a degree of patriotism and so forth that is anticipated for supporters and where do you expect this to be a problem.

Mr. ROTH. I recognize you for 10 minutes or as many as you need.

Mr. ROTH. Thank you, Mr. Chairman. I don't think I'll need a great deal of time. I'm just interested. As you had mentioned, this is something different. We're working here, as I see it, under a different paradigm than we have in the past. It is more like a partnership, as I see it. In a partnership, there is always, no matter how much you agree, there's always a tendency to have disagreements.

What happens when there is a disagreement between HUD and Enterprise? How is this resolved?

Ms. WARREN. Mr. Chairman, Mr. Roth, the NCDI funders form a board, of which HUD is a member. So it operates much on a corporate board model. The Secretary is represented on that board by my boss, George Lattimer, who is a former mayor and very experienced in community development activities.

They meet on a regular basis and have a board structure for resolution of disputes. We're new in this. We're not looking at the dispute, but we think we have a pretty good system designed to work that out and confront that.

I will tell you that the reliance upon the experience and the knowledge of Enterprise and LISC gives us a great deal of comfort. It's not going to mean it's going to be dispute-free.

Mr. ROTH. Do we have some sort of a model we can look at now that is starting to take shape, if we wanted to look at the prototype of things to come? Is there something out that we can look at?

Mr. HARVEY. I think you can. Let me take you one stage back before HUD was a member of NCDI. You had these major funders who all had opinions as to what ought to happen, too, that began to work together. They found a common way of doing that with very little bureaucracy. In essence, there is one program secretary. The principals of the different organizations get together and they really consensually reach agreement on what ought to happen.

They've relied on LISC and Enterprise to do what we do best, which is we carry out the programmatic aspects of it. They hold us accountable, both financially, for those who have lent money to us, but also there are outside evaluators that are in looking at whether we are meeting the goals that have been set forth and what is actually happening in the cities and how grassroots oriented are we and how are we accepting people into the process, so that they have an outside feedback mechanism.

When HUD joined it, which was what's been so interesting, is that they are a voice at that table and they are relying not only on us, but also the experience of those other major funders, like Ford and Rockefeller, which have been at this for a long time. I think it's a terrific prototype, quite frankly.

It's very little bureaucracy. There's a full voice at the table. There is accountability to results. So I think you've really—you've got something that you can look at. And the leverage factor, who has ever heard that the government is one and the private sector is three? That's pretty remarkable at the same time. So I think it's a good prototype.

Mr. GROGAN. I would just add to that that we're going to have to see how easy it is for HUD to really be one of the funders, because HUD alone in this coalition is subject to very different pressures than these large foundations, which actually are quite remote.

They don't have people coming in. They don't have constituencies in the conventional sense. So I think there is a mature understanding that it is going to require great restraint, on the one hand, on the part of HUD to, in effect, behave, more or less, like one of the other funders. The program is going to have to be a whopping success.

One of the things that will enable HUD to hold off more conventional political pressures is the fact that the program is succeeding and has attracted all these resources and that's our job to make this go very well, so that this kind of a model has a chance to survive and perhaps grow in the face of what I think we all acknowledge are very different constraints on HUD than on a major national foundation.

Mr. HARVEY. Just to elaborate on that, we are still trying to work through all of the reporting requirements, the OMB circular A-133, and so forth, all the requirements to which HUD is subjected to

make sure that HUD's as flexible as it can be in these programs and it doesn't kill the program itself.

I think we're very encouraged as to where we are so far. But you're right, the proof is in that pudding.

Mr. ROTH. Thank you very much.

Chairman FLAKE. Is there an anticipated political fallout from this process? That's my question summarized, I guess.

Ms. WARREN. Well, I'm sure there will be more requestors than there are resources any time you have that. That's, quite frankly, Mr. Chairman, why you will see in our legislation that's introduced tomorrow we're looking at other HUD sources for funding. Clearly, the limitation to 23 cities is one political answer and that's why we're seeking other ways to foster community redevelopment and community development corporations outside of this mechanism.

Chairman FLAKE. Are there provisions within the overall NCDI process for organizations who have not formed as nonprofit entities, have not done 501(3)(c) and done all of the necessary legal and technical work to set themselves up? It appears that is a community you need to be addressing. Do you have the ability to build capacity not just in terms of delivery, but in terms of getting them set up to function?

Mr. GROGAN. LISC, of course, is doing a great deal besides NCDI. This is a fraction of what we do in any one year. We devote an enormous amount of time and resources to that kind of organizing and capacity-building effort. So the answer is, at least for us, that we do not anticipate that NCDI resources, per se, would be used to help organize or form new organizations.

These resources will, at least in the main, be flowing to organizations that are already entities and have some track record. But in other parts of our programmatic efforts, through capacity-building efforts, we are building capacity and helping to form new organizations in underserved parts of the city, the cities we work in, and in parts of the country where they're just getting started.

Mr. HARVEY. I would say the same for Enterprise. We do lots of work with CDCs. But let me just get back to one of the requirements that HUD does bring with it, which are these audits. It requires certain things under these audits.

Enterprise and LISC are going to be spending a lot of time with the groups that we have selected to make sure that they can meet those audit guidelines, which means that people have to be aware of all of the Federal, environmental and Davis-Bacon, and so forth, requirements. It takes a certain amount of sophistication. So that to meet those needs, this is not the program for nascent CDCs. Enterprise and LISC do that work with nascent CDCs to get them up to speed to the point at which they could be part of it.

Mr. GROGAN. For NCDI-3.

Mr. HARVEY. NCDI-3.

Chairman FLAKE. I could not agree with you more; housing basically serves as a platform for trying to create a strong enough community to support community development, economic development. I see you have done much in terms of the support services that make housing work, child development and so forth.

I guess I have a great deal of concern, though, about the missing piece with almost every program. I know she knows that I am

going to say it is up to her to do a workshop with them. That is how do we redo those commercial strips, those areas of the community where we cannot get banks historically to respond because you do not have Fannie Mae or some other kind of securitization mechanism in place.

Yet, we are putting some \$20 million of HUD money with a package of 67 million other dollars. Is there capability within the realm of NCDI to take some of the responsibility to assure that in communities where we are able to do housing, day care centers, and other support services, to also deal with the reality that the missing link is still the economic piece. That piece is missing, in part, because in those same communities, there has not been any development or rehabilitation of existing structures which could be made marketable, profitable, places where you could create jobs.

Is that in the package at all or is that something that has to come from some other source? What is your sense of how we get to attack that problem?

Mr. GROGAN. In our case, again, NCDI resources will, in the main, be going to housing and a variety of social service and community organizing efforts. But in other parts of the LISC Program and our work, we are actually expanding greatly our capacity to assist CDCs on a variety of economic development ventures.

One I might mention that we're going to formally announce shortly is a new equity fund for supermarket development. We think there is a tremendous opportunity to bring major chain supermarkets back into the underserved inner-city with enormous effects on neighborhood vitality, jobs, keeping income in the neighborhood, and spin off economic opportunities for local entrepreneurs and franchise owners.

In part, it has been this platform that you describe of capacity and infrastructure that is in place. Economic development is harder, as you know. It's higher risk. So we've had to build both the confidence of a range of private investors and lenders and build the capacity of the CDCs themselves. But we hope that this supermarket fund, which we will formally announce in June, we're just finishing the fundraising effort now, will be the precursor of a whole range of things, including focused commercial district revitalization.

Many, many CDCs are actually very effective at this already; organizing the merchants, emulating the suburban malls in some cases in terms of group advertising, security arrangements, lobbying city government for better lighting and sidewalk improvements. There's a wealth of experience.

The problem is that it is not systematic or systematically supported. So what we envision as part of a new strategic plan that LISC adopted last month, in fact, is in addition to the supermarket effort, a very focused effort in all our cities, perhaps an alliance with some other institutions that have been very good at this, to assist CDCs in accelerating the pace of this commercial district revitalization.

Again, so much residential revival has occurred that, again, there is a much better chance for these districts to survive and thrive than just a few years ago.

Mr. HARVEY. Let me just say that from Enterprise's point of view, we could not agree with you more about the economic piece. Again, I would agree with Paul Grogan that NCDI resources are strained just to do what they need to do as far as the housing goes.

Enterprise works really with others in the community that is doing the economic development. We started out with job placement and we've placed over 30,000 "hard-to-employ neighborhood people" who have been out of the employment system into entry level jobs.

But that's just placement and what really needs to happen is training, skill training, and so forth, and, in certain cases, which I couldn't agree with Mr. Grogan more, that there is a need for a fund to come back in for supermarket and a lot of basics. We're doing that in Sandtown-Winchester very effectively and we're also linking our job training and skill training to other areas of the cities, like Johns Hopkins, who have jobs in other areas.

We're also working under the empowerment zone and Enterprise communities to try to make those more formal links to the private sector and to get more money into the communities that we are serving from a housing point of view.

Enterprise doesn't do that, per se. We really concentrate on the housing. But we work with the residents to connect with others who are doing it, whether private or nonprofit development.

Ms. WARREN. Mr. Chairman, our observations of both this housing as a platform, whether it's assisted through NCDI or HUD assisted housing, leads us to a conclusion that it's block-by-block and door-by-door.

Chairman FLAKE. Absolutely.

Ms. WARREN. That's why I think local-based initiatives and involvement of these organizations are going to move us ahead. It's a daunting task.

Chairman FLAKE. It is that, and, yet, it is a task that someone has to tackle. I guess I have been with Fannie and everybody else trying to find a means to get them to do some set-aside funds, so to speak, just for that purpose, because I am still convinced that if you build all of the housing and one makes an investment in that property, there is still a great deal of concern about where you get basic everyday services.

More importantly, if there is deterioration on the commercial front that leads into the blocks where the housing is, the question is how great a return do I get if I am investing 20 to 30 years in a mortgage, what is there in the end for me that I do not get by driving 4 or 5 miles across the county line, wherever that is, and know that at least there is a probability of a stable community that will remain stable for a reasonable percentage of the time that I carry that mortgage.

That is the greatest fear that I have because you have so much out-flight and so much of the out-flight has nothing to do with the quality of the housing. It has much more to do with the quality of the community expressed by what one sees visibly in that commercial area.

So that even—and I commend you for the supermarket piece. That is a big issue Pat Mark is trying to get back into my commu-

nity now, which is great. But, yet, there are still so many vacant properties, so many stores that are underutilized.

What I have demonstrated with my corporations is that if you can fix them, get them back on the market, there are professional businesses that will come in and take them and that just helps the whole community to be stronger.

Let me just ask one question, Ms. Warren. I guess all of you can answer this. You have a role as a reserve against Fannie Mae's investments in mortgages for low-income multifamily housing. Can you tell us what that means? Does that mean you provide the backup for Fannie Mae, who would not appear to need that? What does this reserve mean?

Ms. WARREN. Mr. Chairman, I'm going to refer that question to Mr. Harvey because it represents an initiative that was done as part of NCDI-1.

Chairman FLAKE. OK.

Mr. HARVEY. As part of NCDI, what we knew we needed was also better long-term fixed rate financing for multifamily housing. Our initiative in this is called Enterprise Mortgage Investments, Inc. It is to provide the possibility for one-stop shopping, where somebody could come to Enterprise and get equity and debt at the same time.

It is to simplify the whole process of using tax credit investment, which provides 94 percent of all affordable rental housing in the country today. But the process simply takes too long, it's too expensive, and it's very difficult to find banks who will lend long.

So we went to Fannie Mae and said we want you to do something very differently. We will administer this fund. We've done a lot of tax credits. We're underwriting the equity. So we're pretty sure the debt is good, as well. We've had a good experience on it.

And give us something that you haven't done before, which is fixed rate, long-term debt, with a 12-month fixed interest rate, because we can't take interest rate fluctuation when we're dealing with very low-income rents. And you take 97 percent of the risk and we'll take 3 percent of the risk.

And for Enterprise's 3 percent of the risk, quite frankly, NCDI said, fine, they'll put up one-half of Enterprise's risk—not Fannie Mae's risk in it. Enterprise will put up the other half of it and Fannie Mae will take 97 percent of the risk and we will administer their money. Their \$150 million.

So in this case, I commend Fannie Mae for what they are doing, because it's a big risk they're taking with us. As far as NCDI, they felt this was worthwhile enough that they would sponsor half of our risk and we have to put up our money for half of our risk.

Chairman FLAKE. So your exposure is not 3 percent?

Mr. HARVEY. It's 3 percent.

Chairman FLAKE. Your exposure is 3 percent.

Mr. HARVEY. It's 3 percent. And the reason Fannie Mae, obviously, wanted it, if they have 97 percent of their money at risk, they want—if they hurt, they want us to hurt, too.

Chairman FLAKE. You have a reason to want to make it work.

Mr. HARVEY. We have a reason to make it work.

Chairman FLAKE. Yes. You have an investment in it. OK. I think we all agree, and you have said it in your testimony, that housing

alone is not the solution to poverty. My discussions with Robert Reich and others has been how do you create mechanisms for job training that is tied to the possibility of a job as opposed to just job training.

I know one of you mentioned in your testimony, I think it was LISC, trying to make this program—no, I guess it was you—trying to make this program resolve some of the issues of job training.

Have you done an analysis of your placements and those placements, in particular, that start at the lower end of the spectrum, how long those people stay in, have they really been trained for jobs that exist, that they can move upward to once they are inside of that corporation.

Is there a way you can give us an overview of what has happened?

Mr. HARVEY. Yes, but it's subjective. We have objective numbers, but there are all kinds of factors at work. We find in our job placement, which was our first step, there are lots of—and what we find in every low-income community are lots of people want to work. Ninety-nine percent of the people want to work.

Now, whether they're trained for the work that exists or not is the other question. Too many of them have—as you say, gone through training and then there isn't a job, and so they say the heck with it at the end of that.

So our attempt is very minor in this. It's to take people and to give them back their dignity, to put them into an entry level job and then to monitor them and to try and help them move up and to, in certain cases, assign them a mentor to help them along the way.

The retention after 1 year has been pretty good, and pretty good means in the 60 to 70 percent. But in a lot of cases, that retention figure may be higher because the job ends. In a lot of cases, it's supermarkets or it's other places and they downsize and then somebody is out of a job. Unless they're reporting back in to us, we lose them from that system.

In fewer cases have we found that people have gone on to significantly higher paying jobs. That, in essence, the training component lags. They're working in entry level jobs. They may be working up through those jobs, but they're not making a leap to a much more highly trained job.

Sandtown-Winchester, which is where we're really working at this, is where we're really looking at that issue systematically. We have a center there that's evaluating every person in Sandtown-Winchester as far as what are their skills, what do they want to do, and what would it take to get them where they want to be, and then how do we connect them to jobs at the end of that.

Before we undertake the training, we want to make sure there are the jobs at the end of that road. But it's a question.

Chairman FLAKE. It's a difficult problem.

Mr. HARVEY. It's a difficult question.

Mr. GROGAN. I'd just like to make a slightly different point very briefly, if I may, Mr. Chairman. That is, that one of the things we need to do is just to continue to build the capacity and strength of these local organizations, because very few of the community devel-

opment corporations LISC supports, either through NCDI or its regular programs, have an exclusive interest in housing.

They got into housing for all the reasons we've been talking about, a way to generate some victories for the community, build leadership talent, start to produce some resources and credibility, and a track record.

Their interests are broad. And what we see evidence of way ahead of us, frankly, all over the country is these groups are using the capacity, the relationships, the credibility they have to pioneer all sorts of ventures that are directed at the jobs and training and economic development areas.

In part, what we're doing with the supermarket fund and some other things is catching up with them, trying to learn from all the things they're already doing, at least on a small scale, and make it systematic.

So in addition to thinking about this topically, as you must—that is, housing programs, job training, economic development—I urge the Congress and the administration to also think about continuing to make investments in this constellation of organizations, because I think you can have comfort that you are continuing to unleash this creativity at the local level and supporting what is not a housing agenda, at bottom, but it is a broad revitalization agenda.

It is sometimes hard for us to promote this idea because a lot of people who haven't seen this don't really understand what's going on out there. Just the power and the possibility of a network of organizations that increasingly are enjoying access to capital and standing in their communities and the ability to get capital for all sorts of new ventures that are turning, I think, in an increasingly decisive way into the economic area.

Mr. HARVEY. Let me add on to that. One point, in New York, which is very important, is that just taking housing itself and how it generates jobs—it is economic development, housing is. If you take our groups in New York, they use small contractors, they use small subcontractors, they use minority professionals, and there is a—we can get you the rate—there's a very high rate of use of minorities.

Large projects, big job creators that are outside, roads, and so forth, do not utilize those same neighborhood resources; that is, creating opportunity and jobs also within these communities.

Chairman FLAKE. Is there—and this might not be germane as it relates to your particular organizations, and then I guess it is when you talk about the broader concepts of economic and community development. Is there applicability here in terms of the model you've created? Can this paradigm actually work, say, in reshaping welfare and to work fair? Can you create models for an adequate means of tracking placements through job training, create the means by which you make jobs available in the communities where the welfare recipients are, so that they are not transporting themselves out to some poor part of another county?

You have the housing mechanism already in place and perhaps as they come off of welfare, outside of the benefits question, the health issues, and so forth. Just looking from the economic side of it, is it possible to do the same kind of privatized leveraging practice design and make it work within the scope of whatever we need

to do to make welfare—to change the welfare structure? Everybody is looking at you, Maureen.

Ms. WARREN. I'm trying to apply, Mr. Chairman, what we're learning every day at HUD where we try to examine our public housing resident initiatives and the linkages we're trying to make with job training efforts there. While we have had what I would term fairly good success in identifying resident abilities and resident desires and education opportunities, the numbers fall off significantly when I reflect on the first question you asked on what is the retention rate and what is the opportunity.

The presence of a local ongoing stream of income from employment is where the dollars fall off. Our experience in the training and development is much better, the prejob type of activities, using the housing as the platform for education and job readiness.

Chairman FLAKE. But we could do some enhancement by creating capacity development opportunities within the housing development, just as we have these other small grassroots groups that are functioning throughout the communities, which I know is an interest of the Secretary. Somehow if they could feel a sense of community to want to be involved in a process of developing, it could well be that we could take the public housing development and make them as a model even for greater developments outside, because you have a community in place.

It is a struggle because you get into—I think Mr. Grogan mentioned something that you do not talk about here on the Hill, and that is investment. The question is everybody wants to talk about social programming, and I know how it sounds when you hear an African-American Democrat from New York talk about how do we move from social programming to investment, which is really the only ultimate answer, as far as I am concerned.

You are moving in that direction and the key now becomes how do we get to the point of changing language and nomenclatures to deal—so we move that whole social idea out and understand that that may be a 30-year idea that has not worked, will not work, and how do we replace that with the essence of an investment idea that is workable in the broader context in the society in which we live and is the model that we tried to export to other countries when we provide justification for our investment in them.

And we have not made those same kind of investments in our communities, our third world, because we have put it under social. Once we title it, it is almost automatically a given that this is not to be viewed as anything other than a program of a limited duration, with a degree of marginality, with no mainstream, no possibility for mainstreaming, which is what I appreciate about what you've done, which is what you ought to appreciate about my Bank Enterprise Act.

I thought I would get that in. It is the fact that we talk mainstream and mainstream means investment. Investment means bringing as many factors and factions to the table as possible to make it happen, because government cannot do all of it. Just your reaction.

Mr. GROGAN. I couldn't agree more. One of the things I think we need to do—

Chairman FLAKE. And you can even comment on Bank Enterprise, if it is positive.

Mr. GROGAN. Is begin to infect the whole social services world with a community development ethic. As you say, the animating concern in many social service programs and the whole welfare system is maintenance of people as opposed to transforming circumstances and opportunity.

The CDCs are all about investment, creating opportunity, transforming conditions. When these two worlds come into contact, there is quite a collision that is created. Although we are making progress and we're very proud of what we've done in New York on the day care side, for instance, it is very different dealing with the Human Resources Administration in New York and the Housing and Preservation Development Department.

As a result of CDBG and the rise of community development, in the constellation of local government entities, the housing and development departments of cities are the most entrepreneurial partnership-oriented entities. We went into HRA in New York and, frankly, for months on end, we got our heads handed to us because here was a department that didn't see the value in partnership, didn't see the value in private sector participation, didn't see any value. They saw inconvenience to their procedures and understood rules and regulations.

So one of the real difficulties that entities like ourselves face is the enormous cost that goes into trying to get the first generation of experimental initiatives to try to bring the same approach and paradigm to the social services world. It's very costly in the early going.

Chairman FLAKE. I think that is why I even raised the question of the politics of the processing. Obviously, my organization went to a \$21 million operation, dealing a lot of HBD, HRA, and all of that, a lot of blood-letting to do things differently.

Then the question becomes even when you do it differently, will the other agencies of government understand it enough to kind of give it a—to say this is good, though it may not have been within the purview of what we perceived. It's good, it's working, so maybe we ought to use it as opposed to trying to find ways to tear it up.

My concern is how do you take something as unique as what you have done and assure that we do not get people who do not understand it and suddenly we see these groupings of community organizations who grow, who automatically represent—you are talking about the tension—a threat for established political leadership.

You know what I am saying. As one who has grown a community organization, the biggest fight comes when it begins to grow and it did not grow within the concept, the limited concept all too often, of those who feel they have the responsibility for doing what these community organizations are doing, and, yet, they cannot do it.

So I commend you. I think this is a progressive step. I think that a part of the hearing is to make sure that there is a clear understanding on the part of the Congress where its risks are, a fuller understanding of what it means in relationship particularly to HUD. And we'll have Jim Johnson and Fannie Mae and some others here tomorrow.

We want to at least get a better feel for when the—as I guess we would call it, biblically poisoned darts of evil begin to come, to be in a position to try to repel, because I know that without some unique and different approaches, we are not going to solve these problems. But everybody does not know that.

We have to build some protective mechanisms really for one another. It's my hope that you can keep building on it. I think the model is important not just for what you do now, but ultimately, if every city, every State and every aspect of the Federal budget says that we have limited resources, the reality is that it's going to be privatization in a cooperative way with government, particularly leveraging, that's going to make the difference in many of these communities.

Hopefully, working together, we can make it happen. I am impressed by what's happening on your side and hopefully we can move on this side to encourage it, support it, embellish it, and assure that Maureen does not get it handed to her because someone up here doesn't understand it. This is not what HUD has done, but, at the same time, when you look at the communities, what HUD has done has not been enough, because there has not been enough resources to do it.

If we can continue to do this leveraging, I think we have great possibilities with this and CDFI, with the Bank Enterprise Act included. I would hope that we as community developers will be able to see some wonderful things.

Now, one final question and that is for LISC and Enterprise. Those community groups who would be, say, in my congressional district, who are currently not accessing any of your services, is it appropriate to make those referrals to you or how do you find—is that the best means of assuring that you get as widespread a grouping involvement?

Mr. GROGAN. Yes, and we will find a way to work with them through one program or another, whether it's this particular opportunity or another. But we would like to talk with them, if we're not talking with them already.

Chairman FLAKE. Finally, if you could assist me, I would appreciate it, in terms of just getting back to my staff persons who you know who may be working pro bono, in terms of assisting emerging community organizations who have not yet gotten their 501(3)(c) and need some legal assistance in moving that process. That's one of the biggest barriers, it seems to many of them, just trying to get over that initial hurdle of setting up the organization.

I would suggest even more so that not only to do the legal setup, but I argue with all community groups about the necessity for accountability. I don't want us to make the same mistakes that were made in model cities in terms of the accountability.

What I demand of groups that I work with is they have to show me that they're going to be accountable. And so I would not even refer them if I did not think they would be. But I think the key is to know that within your organizations there is capacity to help them to be accountable. They don't know what it means to have a CPA. They don't know what it means and they think because they are nonprofits you don't need that. And they think because they're nonprofits they don't have to pay payroll taxes.

So there's a whole plethora of need. If we can find ways to cooperate on that, and perhaps I can get you in the district to meet with some groups to just help them move through that process, because otherwise all the good gets lost when the press comes around or someone on this subcommittee or in this Congress makes a decision that they see a mistake and they make the whole of what you're trying to do have to suffer for that, and I do not want to see that happen.

Thank you very much. I think you have been wonderful and I enjoy these kind of hearings. I live community development and breathe it. That's what I'm about and I'm always happy when we can see new and innovative things happening. I wish for you all the best. Whatever way I can help you out——

Ms. WARREN. You have an ally in my Secretary, Mr. Chairman.

Chairman FLAKE. Thank you very much.

[Whereupon, at 11:33 a.m., the hearing was recessed, to reconvene at the call of the Chair.]

A P P E N D I X

April 19, 1994

(27)

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U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

SUBCOMMITTEE ON GENERAL OVERSIGHT,
 INVESTIGATIONS, AND THE RESOLUTION OF
 FAILED FINANCIAL INSTITUTIONS

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

ROOM 139, FORD HOUSE OFFICE BUILDING

WASHINGTON, DC 20515-6058

OPENING STATEMENT

OF

HONORABLE FLOYD FLAKE, CHAIRMAN

SUBCOMMITTEE ON GENERAL OVERSIGHT, INVESTIGATIONS AND
 THE RESOLUTION OF FAILED FINANCIAL INSTITUTIONS

ON

TUESDAY, APRIL 19, 1994

Good morning, I am pleased to welcome you to the Subcommittee on General Oversight's hearing on the National Community Development Initiative (NCDI). As a community developer, a member of Congress, and as chairman of the Oversight Subcommittee on Banking, today's hearing is very important to me as it relates to HUD's commitment to community reinvestment. As a community developer and legislator, I believe that this initiative could be the private-public partnering model for revitalizing distressed urban and rural communities.

Clearly, the NCDI could be the appropriate method for the use of corporate, foundation and federal investments to achieve substantial and lasting economic growth. As HUD administratively provides capacity building for existing viable community development corporations, we in Congress are considering legislation to increase the capacity and facilitate the creation of community development financial institutions. Such parallel activity may be key to achieving economic renewal of distressed and financially underserved communities.

While I understand that this second round of the NCDI is still in its initial planning phase, I believe the time for oversight and review of the pre-implementation policies and strategies is ripe.

To focus the hearing today, I would like all of the witnesses to present their statements and then to comment on the following policy questions: 1.) the nature of the federal "stake" in the NCDI, and what will be done to efficiently leverage government participation; 2.) the strategies used to maximize capacity building and "bottom-up" planning used and the determination of NCDI's community participants; 3.) The Enterprise Foundation and Local Initiatives Support Corporation's role and responsibilities in private management of the NCDI and whether those roles are exclusive or will further "grass roots" initiatives in each of the communities; 4.) and finally, what other initiatives are being considered by HUD using its community viability funding portfolio to stimulate community development.

I appreciate your written remarks and look forward to today's discussion as we search for solutions to the problem of this Third World nation within our borders. Before I introduce our witnesses, I would like to give the members of the subcommittee and our audience a brief summary of their backgrounds and the organizations they represent.

We'll begin our testimony with the designee for Mr. Henry Cisneros, Ms. Maureen Warren, Deputy Director of HUD's Special Actions Office. The Special Actions Office of HUD is an entrepreneurial office which acts as a catalyst for non-traditional public-private partnerships to address the needs of underserved populations and target cities designated by the Secretary. While this office fosters collaborations with public, non-profit and federal sectors, its purpose is to identify existing successful and innovative

partnerships and to seek opportunities for replication, combining those opportunities with the ability to test new policy directions for HUD across all program areas. This is a tribute to the unique vision and leadership of Mr. Cisneros whose broad mandate in creating a Special Actions Office clearly underscores HUD's commitment to seek new avenues for affordable housing and urban development. Following Ms. Warren will be Mr. Bart Harvey, Chairman of The Enterprise Foundation and Mr. Jim Grogan, President of the Local Initiatives Support Coalition. These two non-profit organizations have been at the forefront of community development by working with local organizations to enlarge their capacity to develop opportunities in housing and economic development in America's neighborhoods.

At this time I would like to welcome our witnesses and hear from other members who wish to be recognized for opening statements.

NEWS FROM



CONGRESSMAN

FLOYD FLAKE



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FLAKE TO HOLD HEARING ON HUD'S NATIONAL COMMUNITY DEVELOPMENT INITIATIVE

Representative Floyd H. Flake, (D-NY), today announced that he intends to examine the performance and viability of the Department of Housing and Urban Development's National Community Development Initiative at a hearing of the House Banking, Finance and Urban Affairs Subcommittee on General Oversight, Investigations, and Resolution of Failed Financial Institutions. The hearing will be held on Tuesday, April 19, 1994, at 10:00 a.m., in room 2253 Rayburn House Office Building.

The National Community Development Initiative is an effort to marry public and private investment with private management to yield effective community development and revitalization. The NCDI is a three year-old program that has attracted \$87.65 million to provide financial support to nonprofit community development corporations for local community development efforts. HUD has invested \$20 million in the NCDI. Approximately two-thirds of NCDI's funding will be in loans and one-third in grants.

Noting the importance of exploring present and future federal government participation in NCDI, Flake stated, "The NCDI represents a dynamic way to marry federal and private resources and talents to lift America's often-forgotten and dramatically under-served communities. It is critical that the Congress and executive branch employ creative ways to approach the longstanding and widespread problems of community neglect and indifference. The Subcommittee on General Oversight will carefully examine the effectiveness and economy of investing precious federal resources in the NCDI and the resultant benefits of participating with private sector institutions to build viable communities."

Scheduled witnesses:

Maureen Warren
Deputy Director
Special Actions Office
Department of Housing and Urban Development

Paul Grogan
President
Local Initiatives Support Coalition

Bart Harvey
CEO
Enterprise Foundation

Statement of

MAUREEN E. WARREN, DEPUTY DIRECTOR
SPECIAL ACTIONS OFFICE
OFFICE OF THE SECRETARY

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Before the

SUBCOMMITTEE ON GENERAL OVERSIGHT, INVESTIGATIONS,
AND THE RESOLUTION OF FAILED FINANCIAL INSTITUTIONS

Of the

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

APRIL 19, 1994

Mr. Chairman and members of the subcommittee. It is a pleasure to appear before you this morning to provide information about the National Community Development Initiative, commonly referred to as NCDI.

One of the basic principles or themes of HUD and Community Planning and Development in this Administration is "bottom up planning". This is a recognition that the best community development is created neighborhood-by-neighborhood, with comprehensive solutions shaped from the bottom up, with and for each community. One of the keys to make this approach work is building local capacity to address housing and community development

issues. The National Community Development Initiative is one important capacity-building tool to make this happen.

The NCDI partnership approach represents an exciting, innovative and effective approach to urban redevelopment by joining together all sectors -- private, nonprofit and public --to invest in central city neighborhoods. As Secretary Cisneros stated in announcing HUD's participation in NCDI, "This initiative involves an unprecedented melding of public and private resources in an historic partnership that will empower communities to rebuild themselves."

The NCDI alliance represents an effort to improve the fabric of community life by providing low-interest loans and grants to local community development corporations, known as CDCs, and local community housing development organizations, known as CHDOs.

CDCs and CHDOs borrow money, invest it in the physical and social infrastructure of their neighborhoods, repay their debts, and build again. These nonprofit groups build and manage affordable housing, create day care and other neighborhood facilities, undertake job-creating economic development efforts and serve as leaders and consensus builders within their communities.

The second round of NCDI will consist of a fund of \$87.65 million, including \$20 million from HUD. We expect that these funds will generate an additional \$660 million from other sources to help accelerate central city neighborhood renewal in 23 cities.

HUD's participation was authorized by section 4 of the HUD Demonstration Act of 1993. The fiscal year 1994 appropriations act provided \$20 million for HUD's share in the partnership.

HUD's ten (10) foundation and corporate partners in this venture are: The Prudential Corporation, The Rockefeller Foundation, J.P. Morgan & Co., The John D. and Catherine T. MacArthur Foundation, Metropolitan Life Foundation, The John S. and James L. Knight Foundation, The Pew Charitable Trusts, Surdna Foundation, The Casey Foundation and the McKnight Foundation.

NCDI will invest in community renewal efforts in 23 cities. The NCDI partnership is managed by the Local Initiatives Support Corporation (LISC) and the Enterprise Foundation. These organizations are leading national nonprofit lending and grantmaking institutions which offer a range of financial and technical assistance to CDCs and other neighborhood-based organizations.

The 23 cities expected to be involved in this second round of NCDI efforts are: Atlanta, Baltimore, Boston, Chicago, Cleveland, Columbus (Ohio), Dallas, Denver, Detroit, Indianapolis, Kansas City (Missouri), Los Angeles, Miami, New York, Newark (New Jersey), Oakland/San Francisco, Philadelphia, Phoenix, Portland (Oregon), San Antonio, Seattle, St. Paul and Washington, D.C.

HUD's involvement as partners in this second round of NCDI funding is based on the success of the first round of NCDI support for inner city rejuvenation. The first effort, announced in 1991, committed almost \$63 million in private foundation and corporate funds to CDCs in 20 cities.

These funds have so far leveraged over \$350 million in support for community revitalization. With these funds, over 150 CDCs have been able to expand their work and strengthen their organizations. More than 5,000 low-income housing units, day care and other community facilities serving over 1,000 children, and neighborhood shopping areas have been completed or are in the course of development.

Some of the successes of NCDI in round I can best be shown by example:

- In New York City, NCDI funds, matched by local private funds, have helped create the Childcare Facilities Development Program. This partnership will result in the development of 10 day care sites and Headstart programs for 880 low-income children throughout the city.
- In Philadelphia, NCDI funds have helped develop some 510 low-income sales and rental units in neighborhoods with nearby shopping.
- In San Antonio, in partnership with the San Antonio Housing Trust Foundation, NCDI has instigated the development of a community-based non-profit housing development system. Operating through six CDCs, there are now 140 housing units under development.

- In Chicago, some 750 units of rental housing are under development through a revolving predevelopment loan program administered by six CDCs using NCDI funds.
- In Portland, Oregon, eight CDCs supported by NCDI loans and grants are planning and developing 250 affordable homes for low-income families. Most of these are single family houses. In addition, more than 15 CDCs received training through NCDI funding.

In addition to providing loans and grants to CDCs in the 23 cities, NCDI funds are being used to increase the availability of affordable financing for CDC-sponsored housing and other community projects. For example, NCDI funds will be used as a reserve fund that will enable Fannie Mae to invest \$150 million in mortgages for low-income multi-family housing.

Mr. Chairman, the NCDI effort to strengthen community development corporations is very closely related to the Administration's Community Development Financial Institution initiative. Many of the CDCs will use the financing made available by the community development banks envisioned under the proposal to increase their development capacity.

Through the efforts of NCDI and others, many CDCs are now strong enough financially, possess the needed talent and have the strong neighborhood ties needed to spearhead the development that will help make community development banks a success. NCDI will continue to work with other CDCs to bring their competence up to the level needed to become users of neighborhood banks.

In summary, I believe that the NCDI effort has vastly strengthened the capacity of CDCs to help bring about the physical, economic and social revitalization of distressed neighborhoods. The Department is excited about its innovative partnership with the private sector and neighborhood-based nonprofits to make CDCs an even greater creative force in meeting community needs in such areas as affordable housing, jobs, crime preventing, health care, child care and education.

Thank you for your attention. I will be glad to answer any questions you may have.

**Statement of
F. Barton Harvey, III
Chairman of The Enterprise Foundation
before
The Subcommittee on General Oversight, Investigations, and
the Resolution of Failed Financial Institutions
Committee on Banking, Finance and Urban Affairs**

April 19, 1994

Chairman Flake, Congressman Roth, and members of the subcommittee, thank you for the opportunity to testify about the National Community Development Initiative (NCDI). We appreciate your interest in this successful partnership which the federal government recently joined. This morning I would like to discuss the work of The Enterprise Foundation, and to explain the way our efforts and those of community based housing developers have been enhanced by NCDI.

The Enterprise Foundation is a nonprofit organization founded in 1982 by urban developer Jim Rouse and his wife Patty Rouse. Mr. Rouse is well known for his festival marketplaces, including New York's South Street Seaport. After leaving commercial development, he established Enterprise with the mission of seeing that all low-income Americans have the access to fit and affordable housing so that they can move up and out of poverty into the mainstream of American life.

We work with 388 nonprofit organizations in more than 150 cities, and we offer loans, grants and technical assistance. We work with groups to enlarge their capacity to develop low income housing by providing training and expertise in organizational development, fundraising, business planning, project financing, project development and property management. We provide nonprofits with loans at below-market rates and help them build local partnerships. We offer guidance on how to link human support services to those being housed. The net result of this activity is that through December 1993, The Enterprise Foundation has helped to make possible more than 36,341 new and rehabilitated units of housing for the poor.

Mr. Chairman, you may be interested to know that in 1987 Enterprise launched its successful New York City program, where we are working with 52 community groups throughout the city's five boroughs. Since the program's inception, we have housed nearly 10,000 people, 35% of whom were formerly homeless; restored over 230 abandoned buildings; and developed over 4,000 apartments for low-income and homeless New Yorkers. In 1992, we started CityHome, a pilot project in New York to offer affordable homeownership opportunities to low-income families, complementing our rental housing efforts. Seventy-six formerly abandoned, city-owned 1-4 unit buildings will be renovated and sold to people earning between \$20,000 and \$45,000 a year. Several of these homes are located in the Jamaica section of Queens.

The reason that The Enterprise Foundation has dedicated itself to the production of low-income housing is because we believe that housing is the essential platform for combatting all of the destructive effects of poverty. Decent and affordable housing is a first step, an essential beginning to transforming the disgraceful, deteriorated, and violent conditions scarring our cities. Decent and affordable housing gives families dignity, self-respect, and the ability to improve their circumstances. Housing is not the solution to poverty in and of itself, but without a safe and healthy place to live, a family cannot begin to deal with the interlocking and complex problems plaguing it.

Structure of the NCDI Program

NCDI was developed in 1991 as the largest philanthropic collaboration for low-income neighborhood renewal in the country's history. Seven of the nation's leading private foundations and a major insurance company joined forces to make grants and low interest loans totaling \$62.5 million to scores of locally controlled, nonprofit community development corporations (CDCs) for neighborhood renewal in 20 cities. NCDI funds are attracting an additional \$500 million in primarily local funding. Initial NCDI funds have been available for the past three years and are delivered to CDCs through The Enterprise Foundation and The Local Initiatives Support Corporation (LISC).

To date, NCDI funds have helped 150 CDCs to expand their work and strengthen their organizations. More than 5,000 housing units, day care facilities, and other community facilities which serve 1,000 children have been completed or are in the course of development.

Based on the success of the first three-year round of the NCDI program, its funders have committed to financing a second round of the NCDI program. An exciting change for the second round of NCDI funding is that Congress has authorized the Department of Housing and Urban Development to participate on equal terms with the foundations and corporations, making the program a unique public-private partnership with the potential to leverage significant funds for community development activities and enhance local efforts to revitalize urban neighborhoods.

The Enterprise Foundation's Work with NCDI

To date, NCDI has proved to be an important force, not only in increasing community based housing production capacity, but in elevating awareness of housing as a key to community stabilization and development. Enterprise anticipates that, at the conclusion of the three year funding cycle, measurable and lasting institutional changes will have occurred in these cities that will enable local players to effectively plan and implement affordable housing programs.

Through the creation of local umbrella partnerships, sustainable relationships with lenders, public funders, the corporate community, and community based organizations will be developed that enable NCDI cities to maximize their housing resources in a systematic manner.

Through training and capacity building, neighborhood CDCs will have the necessary tools to undertake complex development projects, ensuring community control.

Enterprise believes that each city represents a unique set of opportunities for which there will be unique answers. Our approach has been to tailor our efforts to complement local needs and delivery systems, encouraging the development of indigenous institutions. We believe there are many potential partners who can and should participate in neighborhood revitalization.

The following descriptions of Enterprise's work with the NCDI program in six cities is intended to depict the varied nature of our city strategies and the activities we have conducted:

New York City

In New York City, Enterprise is using NCDI and other dollars to focus its efforts on low-income children. In a unique collaboration with the City's Agency for Child Development, Marymount College, and Enterprise, NCDI funding has been used to rehabilitate common area space in three CDC-owned apartment buildings to create child development centers. Known as Community Life Centers, these facilities will be owned and managed by the CDCs. The centers will provide Montessori system child development and train low-income tenants and neighborhood residents to be teachers and managers. The centers will also offer social services and job training to neighborhood residents.

The three participating community groups are Brooklyn Catholic Charities Progress of People ("POP"), Simeon Service Foundation, and the Oceanhill-Brownsville Tenant's Association.

Baltimore

NCDI funds have been used to spur housing development and related activities in the Sandtown-Winchester neighborhood, a severely distressed area of West Baltimore. This effort, known as the Neighborhood Transformation Program, is led by Community Building in Partnership, Inc. (CBP, Inc.). CBP, Inc. is a collaborative of Sandtown residents, city government, and Enterprise working to transform all of the basic systems in the neighborhood affecting community life -- housing, education, employment, health and human services. As a part of this broader initiative, NCDI grant and loan funds have helped support the development of 128 homes for low-income families and the creation of a Neighborhood Development Center, which will help renovate and build the community's housing.

Elsewhere in the city, 14 neighborhood groups run by African-Americans have received training in housing development through NCDI. Several of these groups are now ready to develop housing programs and will receive continued assistance from Enterprise. In addition, linkages with local universities and nonprofit and for-profit developers will be pursued to develop a professional career track for trainees. NCDI funds will be used to support these

efforts.

Cleveland

In collaboration with Neighborhood Progress, Inc., a local community development intermediary that provides financing and technical support to CDCs, and the Cleveland Housing Network, a support organization to neighborhood groups, NCDI funding has been used by CDCs as working capital loans and incentive grants to boost their organizational capacity and housing production. More than 840 homes have been developed using NCDI loan funds.

Columbus

Columbus' NCDI program, called Homeward Bound, is a collaboration among the Columbus Housing Partnership (CHP), the Columbus Foundation, United Way, and the City of Columbus to create a community-based housing development system. Prior to NCDI, Columbus lacked a system of community-based development. Homeward Bound has provided grants and low cost loans to eight newly created CDCs, which have worked with CHP to develop 119 homes for low-income families. Homeward Bound has a strong emphasis on community services. One NCDI-supported project, Mwanza Place, spurred the creation of a consortium of over 40 social services agencies which provides supportive services to Mwanza Place residents.

San Antonio

Prior to NCDI, San Antonio lacked a community-based nonprofit housing development system. In partnership with the San Antonio Housing Trust Foundation, NCDI has provided operating grants and comprehensive technical assistance and training to six newly developed CDCs. These CDCs now have 139 units under development, of which 107 have received direct NCDI project support.

Also through Enterprise's initiative and NCDI support, city department heads formed a "housing roundtable" to better coordinate public financing of low-income housing. The city manager now manages the roundtable while Enterprise provides technical assistance.

Portland, Oregon

When the Neighborhood Partnership Fund (NPF) was created in 1990, it was Portland's only CDC with significant capacity. Since then, three other existing CDCs and four new ones have been trained by NPF. Eight CDCs supported by NCDI loans and grants are planning and developing 251 affordable homes for low-income families. Most of these homes are single family houses. In addition to delivering NCDI funding, Enterprise is helping the City of Portland to expand its housing production system by providing research on model housing delivery programs.

NCDI Round 2: Future Plans

On March 21, 1994, the NCDI partners formally announced the second round of the NCDI program. The core funders include 10 major national corporations and foundations and HUD. They are providing a total of \$87.7 million. Approximately two-thirds of the funding will be in delivered as low-interest loans and one-third will be given as grants. The core funding is expected to generate over \$750 million in total funding for community development activities when the partnership is joined by more than 200 local public and private partners.

Enterprise, LISC, and our local partners are all enormously pleased with the role that HUD will play in the next round of NCDI. We deeply appreciate Congress' hard work in crafting authorizing legislation allowing HUD to participate in NCDI without unnecessary programmatic requirements. We believe the House and Senate Banking Committees demonstrated tremendous leadership in current efforts to reinvent government by allowing HUD to act as partner with its private sector colleagues. Additionally, we acknowledge the difficult task of funding new initiatives under the limitations of the federal budget, and would like to thank members of Congress for their support of this new role for the federal government.

NCDI 2 is still in the planning stages and HUD will not be able to allocate its share of funding until July. However, we have an ambitious list of activities we hope to pursue with the assistance of NCDI 2. In addition to continuing the activities we have begun under the first round, NCDI 2 will expand the program into three more cities: Dallas, Detroit, and Phoenix. Also, resources will be provided for two initiatives which are designed to increase the flow of affordable financing nationwide:

- 1) NCDI has agreed to make a \$1.5 million matching grant to Enterprise to fund a portion of the loan-loss reserves of a new organization created by Enterprise and Fannie Mae. Enterprise Mortgage Investments, Inc. (EMI) will serve as a community lender to provide mortgage financing for the development of affordable multifamily housing nationwide. Fannie Mae has committed \$150 million to EMI's lending program, which will offer developers first mortgages on multifamily rental properties that qualify for the federal Low Income Housing Tax Credit.
- 2) The Local Initiatives Manages Assets Corporation (LIMAC), an affiliate of LISC, will provide a secondary market to purchase up to \$30 million in low-interest community development loans from a number of nonprofit lenders. This secondary market will enable these lenders to recycle their funds into new community projects.

NCDI represents not only grant and loan dollars, but an opportunity to create lasting institutional changes in the communities in which we work. In the coming years, Enterprise intends to continue its focus on encouraging the development of local umbrella partnerships and capacity building of neighborhood CDCs. In addition to these continuing activities, Enterprise has proposed expanded activities including developing a property management resource center, incorporating community services with housing, encouraging community organizing efforts, and

encouraging linkages with larger developers to increase the capacity of neighborhood based CDCs.

NCDI is a unique opportunity for many different institutions in our society -- foundations, corporations, and now the federal government -- to collaborate and focus their resources on creating solutions to the serious problems plaguing low-income communities. This structure ensures that the federal government's contribution is leveraged many times over by private and local resources. In this time of constraints on federal spending and increasing needs in our neighborhoods, a public-private partnership like NCDI offers a hopeful model for rebuilding our cities.

Thank you for the opportunity to testify.

Testimony of

Paul S. Grogan
President
Local Initiatives Support Corporation

Regarding

LISC's Participation in the
National Community Development Initiative

Before the

General Oversight, Investigations, & Resolution of
Failed Financial Institutions Subcommittee
Committee on Banking, Finance, and Urban Affairs
U.S. House of Representatives

April 19, 1994

Testimony of Paul S. Grogan

Good morning Mr. Chairman. My name is Paul Grogan. I am President of the Local Initiatives Support Corporation or LISC. I am pleased to be here today to offer testimony regarding LISC's activities under the National Community Development Initiative (NCDI). I will begin with an introduction to LISC, discuss why we focus on nonprofit low-income community development corporations (CDCs), and review our efforts and accomplishments under the first phase of the NCDI program. I will close with a brief status report on the second round of NCDI, in which the Department of Housing and Urban Development will join with ten other funders to accelerate the pace and scope of community-led revitalization activities.

About LISC

LISC was created by the Ford Foundation and six corporations in 1979 as a nonprofit organization to assist CDCs in their efforts to transform distressed neighborhoods into healthy communities. LISC operates with the convictions that: community regeneration must come from within the community itself; that government at all levels, the private sector, and community residents all have critical roles to play and must work together as active partners; and that CDCs are the most effective agents for fighting poverty in the most distressed neighborhoods in the United States.

LISC helps CDCs grow by providing financial and technical resources. We finance projects and help CDCs work with banks and local governments to: repair the physical landscape and social fabric of neighborhoods; build decent, affordable housing; and improve commercial and retail services for community residents. Equally important, we seek to strengthen emerging CDCs and create new organizations through community organizing and leadership development activities.

LISC now operates 32 local programs nationwide, and has become the nation's largest private, nonprofit community development intermediary. A list of LISC's program locations is attached. Funds raised by the local program are matched by national LISC on a formula basis. Each LISC area is served by local staff and governed by a local advisory committee which recommends CDC projects for funding to LISC's national Board of Directors.

Our primary focus has been to build the financial and technical capacity of CDCs to sponsor housing and commercial development projects. We provide technical assistance and project financing to aid CDCs: grants, loans, recoverable grants, equity investments and loan guarantees for housing production, operating support, capacity building and up-front pre-development costs. More than \$236 million in grants, low-interest loans and equity was invested in CDC-sponsored projects nationwide in 1993. LISC support is often the first dollar committed to a project, helping to leverage additional private and public resources

and adding credibility to the project.

Our general criteria for funding a CDC are straight-forward. The CDC must be charitable, have a comprehensive strategy for neighborhood revitalization, and be community-based as reflected by the composition of its staff and governing board.

Since its inception, LISC has:

- Raised \$1.2 billion in grants, loans and equity investments from more than 1,200 corporations, foundations, individuals and public agencies.
- Enabled CDCs to use these funds to leverage an additional \$2.2 billion in financial support.
- Helped about 1,000 CDCs nationwide build or rehabilitate 50,000 homes and apartments and create 8.4 million square feet of commercial and industrial space.
- Identified, elevated, and nurtured indigenous leadership in inner-city neighborhoods.
- Publicized the achievements of individual CDCs, thereby contributing to a more favorable climate for their support, and helped to develop and ensure the passage of legislation essential to the community development movement.

To support local community development activities, LISC has created new mechanisms to attract new resources at the national level.

For example:

- In 1987, LISC formed the National Equity Fund (NEF) to syndicate corporate investments in CDC-sponsored low-income rental housing via the Federal Low Income Housing Tax Credit. NEF is the nation's largest nonprofit affordable housing investment program. It has raised \$900 million from 114 corporations, helping CDCs to create 20,000 housing units.
- In 1993, LISC formed The Retail Initiative (TRI) a corporate equity fund to help CDCs develop supermarket-anchored neighborhood retail shopping centers. This June we will announce the formulation of an unprecedented initial investment pool. We expect to make our first project commitments to CDCs later this year.
- Created the Local Initiatives Managed Assets Corporation (LIMAC) in 1986 to attract new capital for CDCs by creating a secondary market for affordable

housing and community development loans made by nonprofit community development lenders. LIMAC has raised about \$21 million from private sources, and is in the process of raising an additional \$25 million, for a total of \$46 million. A substantial portion of the new funds will come from religious pension funds and will be available for 15 years. LIMAC has committed to purchase \$51 million in loans from nonprofit community development financial institutions and has already purchased \$30 million of these loans, using funds raised and recycling loan repayments as they are received.

The Role of CDCs

As you know, Mr. Chairman, CDCs are community-based – that is, they are accountable to one or more distressed neighborhoods or rural areas where they focus their efforts. Their mission to rebuild their communities physically, economically and socially transcends housing or any other single issue. They are community institutions that act as a catalyst for indigenous leadership, and a partner of, not a substitute for, government and the private sector. Given their focus on tangible product, they are pragmatic, collaborative, and constructive advocates for their communities.

The latest national survey of the CDCs by the National Congress for Community Economic Development showed that, as of 1990, about 2,000 CDCs had developed about 320,000 units of housing, serving about 1 million people, built 17.4 million square feet of commercial and industrial space, made over 3500 loans to small businesses, and created or preserved 96,000 permanent jobs. A large majority also undertook social service, anti-crime, or advocacy activities. But just as impressive as these numbers is the qualitative impact of CDCs. As you know well Mr. Chairman, when you talk with neighborhood residents, city officials, and bankers and other corporate leaders, you can feel the pragmatic optimism, the vision, and the hope that CDCs are generating.

LISC and the National Community Development Initiative

As you are aware, LISC and the Enterprise Foundation are participants in the first round of NCDI, a \$62.8 million program launched in 1991 by seven national foundations and a major insurance company. One focus of the program was to encourage the development of systems of support for CDCs that would enhance the scale of their activities. LISC has approached this objective in two particular ways: by organizing financing systems so that multiple sources can be accessed by CDCs more effectively; and by fostering capacity building programs so that CDCs could deepen their organizational capacity. CDCs are working in some of the country's most distressed neighborhoods where strong organizational skills are required to undertake a long-term revitalization program.

Under the first round of NCDI, LISC is administering NCDI programs in 14 areas

across the country. They are briefly described below.

Boston: The Boston NCDI program will work with 10 to 12 CDCs to implement community-wide homeownership programs, focusing on abandoned or foreclosed 1-4 unit properties in targeted neighborhoods. LISC and the Boston Community Loan Fund will provide revolving lines of credit to fund acquisition and construction activities. By renovating clusters of blighted housing on a concentrated basis in selected areas, CDCs hope to create a climate that will spur further revitalization efforts. Earlier, with NCDI support, Boston LISC worked with five CDCs and other collaborators to tackle abandoned single-room occupancy (SRO) properties and turn them into quality housing with on-site social services for the chronically homeless and mentally ill, as well as people with AIDS.

Chicago: Recognizing a need for working capital among Chicago's many well-established and productive community development corporations, Chicago LISC has used NCDI dollars and funds raised locally to create a line-of-credit program for experienced CDCs. These organizations have been able to accelerate the pace of their work, creating 760 homes, including rental apartments and SROs. NCDI also helps to fund the Chicago Home Ownership Program, or CHOP, a collaborative effort of Chicago LISC, Neighborhood Housing Services, and CDCs. CHOP provides financing to assist CDCs in the purchase and renovation of homes to be sold to lower income families.

Indianapolis: In conjunction with the Indianapolis Neighborhood Housing Partnership, a broad-based partnership entity that supports community development efforts, LISC has used NCDI funding to help CDCs learn by doing through a development training program that builds organizational skills along with housing. Development of 146 rental units is underway, including a senior citizen's residence that also houses a public library branch. In addition to this rental housing, LISC used NCDI funds to provide open lines of credit for CDCs working to produce 100 homeownership units that have been awarded HOPE III funds.

Kansas City: Kansas City's NCDI program has two components -- the Affordable Housing Program, providing lines of credit to allow CDCs to expand their homeownership development activities, and the Kansas City Capacity Building Program, providing \$1 million over three years for assessment, training, and operational support to selected CDCs. With these resources, CDCs have more than 70 homes completed or in progress at present. In addition, LISC is using NCDI funds to support a unique educational program to attract young people to the field and bolster the skills of those already active in the field.

Los Angeles: In Los Angeles, NCDI funds have been combined with the Los Angeles Collaborative for Community Development capacity building program. Administered by LISC, the Collaborative capacity building program is vertically integrated and takes an organization from planning to training to project development. The Collaborative has provided operating support and training to more than a dozen CDCs, enabling them to take on larger projects. As a part of this effort, NCDI funds have been used for early-stage

financing, often for site acquisition or construction. Overall, the Collaborative effort has generated a pipeline of more than 1000 units of housing and related facilities, such as child care centers. NCDI funds are particularly targeted to South Central and East Los Angeles communities.

Miami: The Greater Miami LISC's overall program strategy for NCDI is for six proven CDCs to build their capacity and scale-up their production by developing 285 units over three years. The program was expanded in response to Hurricane Andrew, with supplemental NCDI funding provided to enable Dade County CDCs to step up their efforts to produce housing, expand development training programs, and create child care and other community facilities and programs. Predevelopment financing has been advanced for more than 400 units thus far, about half of which are now complete.

Newark: The NCDI strategy in Newark has been to combine NCDI grant and loan funds with other funds to increase the capacity and productivity of Newark CDCs. Thus far, CDCs have completed about 90 affordable apartments, with 175 homeownership and rental units slated for construction or renovation in 1994. The approaches used to support CDC efforts include: enrolling CDC staff in a formal real estate development training program; assisting CDCs in creating strategic plans for their organizations and their neighborhoods; sponsoring the publication of a manual describing Newark's development process in detail; encouraging CDCs and other nonprofits to form a coalition to improve communications; and providing direct financial and technical assistance.

New York: In New York City, NCDI loan funds support the activities of the Child Care Facilities Development Program. This partnership among communities, the City of New York, and private funding sources will result the development of 10 new child care/Head Start facilities serving up to 900 children in buildings owned or controlled by CDCs. On the West Side of Manhattan, for example, a center, including a good-sized outdoor play area, is being developed in a storefront of a formerly abandoned tenement building. This project also resulted in the creation of 69 quality apartments.

Oakland/San Francisco Bay Area: In the Bay Area, LISC has used NCDI funds to complement Bay Area Housing Support Collaborative efforts in the areas of training and core operating support by providing predevelopment financing for more than 500 units of affordable housing to date. This effort, which focuses on East Bay communities, has provided training, technical assistance, and funding to support diverse initiatives, including the development of a supermarket, homebuyer counseling programs, and an employment development program that will offer training in cabinet and furniture making.

Philadelphia: In conjunction with support provided by the Philadelphia Neighborhood Development Collaborative, NCDI funds have helped CDCs to move forward with ambitious plans to build more community-based affordable housing than ever before in the City. More than 500 units -- rental and homeownership -- are being developed, leased, or sold in low-income neighborhoods.

Seattle: The NCDI program in Seattle is a unique CDC collaboration focused on creating affordable ownership opportunities in two communities, Central and Southeast Seattle. This program, called Seattle HomeSight, was created to spearhead an efficient delivery system that could take best advantage of private development and financial tools. NCDI helped HomeSight to close a \$3 million revolving line of credit used to financing construction activities. Expanding the homeownership base is intended to stabilize and revive neighborhoods hurt by disinvestment.

St. Paul: The NCDI program in St. Paul has two components, a homeownership production program and a complementary CDC operating support program. With these financial and technical resources, CDCs are converting vacant houses into attractive, reasonably priced homes and attracting new residents to communities left behind the wave of suburban migration.

Washington, D.C.: In the nation's capital, NCDI resources are focused on increasing the financing and technical assistance resources to support CDCs as organizations and as developers. NCDI funds, coupled with contributions from 28 local and national foundations have been used to launch the Community Development Support Collaborative, which will assist 10 CDCs over a three-year period. NCDI loan funds have been advanced for the development of about 300 homes and apartments with a total development value of nearly \$20 million. Among these is the historic Whitelaw Hotel in the Shaw neighborhood, a building where Duke Ellington and other jazz greats once resided, which is now 35 affordable apartments with a landmark-restored ballroom used for community functions.

NCDI -- Second Round

As you are aware, the eleven funders involved in the second round of NCDI have recently announced that they will invest a total of \$87.65 million in loans and grants aimed at accelerating neighborhood renewal efforts by fostering changes in local community development systems. A fact sheet on the NCDI funders is attached. Of this total, HUD is providing \$20 million, and private sources are providing the remainder. These funds are expected to attract an additional \$600 million from other public and private sources. As in the first round, LISC and Enterprise will administer local NCDI programs.

We believe that it is extremely significant that the federal government has joined this partnership. First, it provides an opportunity for the federal government to work with NCDI funders and us in learning how to fashion and implement effective community revitalization programs. Second, federal participation has sparked NCDI's private sector players to not only recommit to an existing initiative (which is rare) but expand their participation in it. Finally, by signaling a revived interest in neighborhood development by joining in NCDI, we believe HUD's participation will encourage expanded public and private participation at the local level.

Although program plans for the second NCDI round are not finalized, we expect that we will expand our efforts in current NCDI sites. We also expect to launch NCDI programs in two new areas – Detroit and Phoenix. Local LISC programs and their partners are now designing their programs. Preliminary plans will be approved within the next few months. I would be pleased to provide you with a report on these new initiatives at that time.

Conclusion

This concludes my testimony. I would be happy to answer any questions you may have and would appreciate the opportunity to provide you with further information on the second round of NCDI at a later date.

LISC PROGRAM AREAS

- | | |
|-----------------------------|------------------------|
| 1. BATON ROUGE | 17. MID SOUTH DELTA |
| 2. BAY AREA | 18. MONONGAHELA VALLEY |
| 3. BOSTON | 19. NEW ORLEANS |
| 4. CHICAGO | 20. NEW YORK CITY |
| 5. CLEVELAND | 21. NEWARK |
| 6. CONNECTICUT MULTI-CITIES | 22. NORTHWEST INDIANA |
| 7. DETROIT | 23. PALM BEACH COUNTY |
| 8. HOUSTON | 24. PHILADELPHIA |
| 9. INDIANA STATEWIDE | 25. PHOENIX |
| 10. INDIANAPOLIS | 26. PUGET SOUND |
| 11. KALAMAZOO | 27. RHODE ISLAND |
| 12. KANSAS CITY | 28. RICHMOND |
| 13. LITTLE ROCK | 29. SAN DIEGO |
| 14. LOS ANGELES | 30. ST. PAUL |
| 15. MIAMI | 31. TOLEDO |
| 16. MICHIGAN MULTI-CITIES | 32. WASHINGTON DC |



FACT SHEET ON NCDI FUNDERS

THE PRUDENTIAL

The Prudential Insurance Company of America is one of the largest and most diversified financial organizations in the world, and the largest insurance company in North America. More than 50 million people own or are benefitted by Prudential products and services worldwide.

Corporate citizenship is an integral part of The Prudential's business philosophy. Its Social Investments program was established in 1976 and has since provided more than \$550 million in loans for social improvement initiatives in affordable housing, economic revitalization and health-care cost containment. Many of these ventures might otherwise not have been able to obtain financing.

The program operates alongside The Prudential Foundation, the company's philanthropic arm. Established in 1977, the Foundation has awarded over \$160 million in charitable grants for non-profit initiatives in health and human services, education, urban and community development, and business and civic affairs. In 1993 alone, The Prudential awarded grants and social purpose investments totaling nearly \$42 million.

THE ROCKEFELLER FOUNDATION

The Rockefeller Foundation is a philanthropic organization endowed by John D. Rockefeller and chartered in 1913 "to promote the well-being of mankind throughout the world." It is one of America's oldest private foundations and one of the few with strong international interests. From the beginning, it has sought to identify and address at their source the causes of human suffering and need.

While concentrating its efforts on selected programs with well-defined goals, the Foundation adjusts its course to reflect needs and opportunities as they arise. Its work lies in three principal areas: international science-based development, the arts and humanities, and equal opportunity. The balance of the Foundation's grant and fellowship programs support work in U.S. school reform, international security, international philanthropy, and other special interests and initiatives.

J.P. MORGAN & CO. INCORPORATED

J.P. Morgan is a leading global financial intermediary that has built its business, over

150 years, on a commitment to serve the long-term interests of clients with complex financial needs. Our success has been built on putting our capital, financial expertise, and innovative ideas to work for clients. In fulfilling its responsibility to promote community development, the firm uses the same approach as it does when working in other markets and serving other clients. The first thing we look to do is establish a relationship, and from that relationship we look to build a partnership.

Our aim is to enhance the capacity of individuals and organizations that are working to address economic, social, and cultural challenges by offering them long-term solutions rather than temporary quick fixes.

Most of our investment and lending activities are conducted through the J.P. Morgan Community Development Corporation (MCDC). Established in 1971 as the first bank holding company subsidiary of its kind, MCDC continues to be a leader among wholesale financial institutions in devising innovative financing to assist in the development of inner city communities. It focuses on four broad areas: affordable housing; nonprofit organizations; minority enterprises; and economic development projects.

JOHN D. AND CATHERINE T. MACARTHUR FOUNDATION

The John D. and Catherine T. MacArthur Foundation has awarded nearly \$1.5 billion in grants since 1978. The Foundation supports programs in mental health, environment, education, peace and international cooperation, mass communications, population and individual creativity. It also supports cultural and community organizations in Chicago, Illinois and Palm Beach County, Florida. In addition to grants, the Foundation makes low-interest and no-interest loans to organizations working towards Foundation goals.

METROPOLITAN LIFE FOUNDATION

The Metropolitan Life Foundation was established by the Metropolitan Life Insurance Company in 1976, and has contributed nearly \$100 million to a wide range of health, civic, educational and cultural projects and organizations throughout the United States. The Foundation has also committed more than \$60 million in Program-Related/Social Investments.

JOHN S. AND JAMES L. KNIGHT FOUNDATION

Established in 1950, the John S. and James L. Knight Foundation makes national grants in journalism, education and the field of arts and culture. It also supports organizations in 26 communities where the Knight brothers were involved in publishing newspapers but is wholly separate from and independent of those newspapers. In those 26 communities, the Foundation concentrates its funding on seven areas of special interest, including community development, which has been the focus of nearly \$20 million in grants and program-related investments since 1988. In 1993, the Foundation paid out \$32,069,323 in grants; assets at the end of 1993 totaled \$800,031,371.

THE PEW CHARITABLE TRUSTS

The Pew Charitable Trusts, a national and international philanthropy with a special commitment to Philadelphia, support nonprofit activities in the areas of culture, education, the environment, health and human services, public policy, and religion.

Through their grantmaking, the Trusts seek to encourage individual development and personal achievement, cross-disciplinary problem solving, and innovative, practical approaches to meeting the changing needs of a global community.

With assets of slightly more than \$3.4 billion and an annual grantmaking budget of about \$170 million, the Trusts rank as one of the country's largest private philanthropies. Their program interests are wide ranging, from restructuring our nation's schools to building institutions that support democracy in East and Central Europe, from fostering individual artistic development to expanding biomedical research, from protecting our ancient forests to training urban ministers.

SURDNA FOUNDATION

Surdna Foundation was established in 1917 and has assets of \$400 million. Since 1990, the Foundation has concentrated its grantmaking activities in two programmatic areas: the environment and community revitalization. The Foundation also provides operating assistance to two social service institutions in Westchester County, New York. Program grants and contributions to the two institutions will total \$18 million this fiscal year.

In the area of community development, the Foundation makes grants in excess of \$4 million annually. It supports projects that revitalize the economic, social, educational and cultural life of communities. The Surdna Foundation's participation in NCDI reflects its commitment to supporting public/private partnerships that increase investment in, and strengthen, disadvantaged urban communities.

THE ANNIE E. CASEY FOUNDATION

The Annie E. Casey Foundation is a private charitable organization dedicated to helping build better futures for disadvantaged children in the United States. It was established in 1948 by Jim Casey, one of the founders of United Parcel Service, and his siblings in honor of their mother.

The primary mission of the Foundation is to foster public policies and human service reforms that more effectively meet the needs of today's vulnerable children and families. In pursuit of this goal, the Foundation makes grants that help states, cities, and communities fashion more innovative, cost-effective responses to these needs.

THE MCKNIGHT FOUNDATION

The McKnight Foundation is a private charitable foundation, located in Minneapolis, with a primary interest in assisting people who are poor or disadvantaged by enhancing their capacity for productive living. The Foundation also seeks to strengthen community and community institutions, to enrich people's lives through the arts, and to encourage preservation of the natural environment. The Foundation's primary geographic focus in its human services and arts grantmaking is the state of Minnesota.

Founded in 1953 and endowed by William L. and Maude L. McKnight, the Foundation has assets of more than \$1 billion and paid grants of \$53.3 million in 1993. Mr. McKnight was one of the early leaders of the 3M Company, although the Foundation is independent of that corporation.

THE U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

The U.S. Department of Housing and Urban Development is the principal federal agency responsible for the nation's housing needs, fair housing opportunities, and improvement and development of communities.

In carrying out its responsibilities, HUD administers a wide variety of programs, including: Federal Housing Administration mortgage insurance programs that help families become homeowners and facilitate the construction and rehabilitation of rental units; rental assistance programs for lower-income families who otherwise could not afford decent housing; grants to states and localities to develop communities; and programs to help protect the homebuyer in the marketplace. The Department also takes steps to encourage a strong private sector housing industry that can produce affordable housing; and to stimulate private sector initiatives, public/private sector partnerships, and public entrepreneurship.



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